

**REPORT OF THE AUDIT OF THE
LEE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2007**

CONTENTS

PAGE

| | |
|---|----|
| INDEPENDENT AUDITORS' REPORT | 1 |
| STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS | 3 |
| NOTES TO FINANCIAL STATEMENT | 5 |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS | 8 |
| COMMENTS AND RECOMMENDATIONS..... | 11 |

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The Honorable Steve Mays, Lee County Judge/Executive
The Honorable Donnie Hogan, Lee County Sheriff
Members of the Lee County Fiscal Court

Independent Auditors' Report

We have audited the accompanying statement of revenues, expenditures, and excess fees – regulatory basis of the Sheriff of Lee County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide For County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2007, in conformity with the regulatory basis of accounting as described in Note 1.

The Honorable Steve Mays, Lee County Judge/Executive
The Honorable Donnie Hogan, Lee County Sheriff
Members of the Lee County Fiscal Court

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2008, on our consideration of the Lee County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

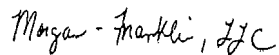
Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

2007-1 The Sheriff's Office Lacks Adequate Segregation of Duties

2007-2 The Sheriff's Office Staff Should Batch Receipts Daily And Deposit Receipts Timely

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Lee County, Kentucky, and the Commonwealth of Kentucky and is not intended and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Morgan-Franklin, LLC".

Morgan-Franklin, LLC

June 12, 2008

LEE COUNTY
DONNIE HOGAN, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

| | | | |
|--|----|--------|---------|
| State Grants | | \$ | 2,855 |
| State Fees For Services: | | | |
| Finance And Administration Cabinet | \$ | 7,453 | |
| Cabinet For Health and Family Services | | 360 | |
| Sheriff Security Services | | 8,931 | 16,744 |
| <hr/> | | | |
| Circuit Court Clerk: | | | |
| Fines And Fees Collected | | 1,231 | |
| Court Ordered Payments | | 56 | 1,287 |
| <hr/> | | | |
| Fiscal Court | | | 1,400 |
| County Clerk - Delinquent Taxes | | | 2,348 |
| Commission On Taxes Collected | | | 83,798 |
| Fees Collected For Services: | | | |
| Auto Inspections | | 1,065 | |
| Accident And Police Reports | | 490 | |
| Serving Papers | | 14,185 | |
| Carrying Concealed Deadly Weapon Permits | | 780 | 16,520 |
| <hr/> | | | |
| Other: | | | |
| Sheriff's Add On Fees | | 10,876 | |
| Miscellaneous | \$ | 2,277 | 13,153 |
| <hr/> | | | |
| Interest Earned | | | 122 |
| <hr/> | | | |
| Total Revenues | | \$ | 138,227 |

LEE COUNTY
DONNIE HOGAN, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Payments To Fiscal Court -

| | | | |
|--------------------|----|--------|------------|
| February 1, 2007 | \$ | 1,149 | |
| March 8, 2007 | | 4,914 | |
| April 11, 2007 | | 8,175 | |
| May 14, 2007 | | 7,629 | |
| June 11, 2007 | | 12,238 | |
| July 11, 2007 | | 9,602 | |
| July 18, 2007 | | 1,000 | |
| August 21, 2007 | | 8,501 | |
| September 24, 2007 | | 4,625 | |
| October 22, 2007 | | 4,736 | |
| November 16, 2007 | | 2,416 | |
| December 4, 2007 | | 29,747 | |
| January 10, 2008 | | 29,499 | |
| February 1, 2008 | \$ | 13,996 | \$ 138,227 |

Balance Due Fiscal Court At Completion Of Audit

\$ 0

LEE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Lee County Sheriff is required by the Fiscal Court to participate in a fee pooling system. Fee officials who are required to participate in fee pooling deposit funds collected into their official operating account. The funds are then paid to the County Treasurer on a monthly basis. Invoices are submitted to the County Treasurer to document operating expenses. The County Treasurer pays all operating expenses for the fee official.

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Lee County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Lee County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Related Parties

The County Finance Officer is one of the Sheriff's sisters, who reviews timesheets and invoices from the Sheriff's office prior to payment. The Property Valuation Administrator is also his sister and she prepares tax bills for the Sheriff's Department.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Donnie Hogan, Lee County Sheriff
Members of the Lee County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Lee County Sheriff for the year ended December 31, 2007, and have issued our report thereon dated June 12, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lee County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting, such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies 2007-1 and 2007-2, described in the accompanying comments and recommendations, to be significant deficiencies in internal control over financial reporting.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards (Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lee County Sheriff's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Lee County Sheriff's response to the finding identified in our audit is included in the accompanying comments and recommendations. We did not audit the County Sheriff's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Lee County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Morgan-Franklin, LLC

Morgan-Franklin, LLC

June 12, 2008

LEE COUNTY
DONNIE HOGAN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2007

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2007-1 The Sheriff's Office Lacks Adequate Segregation of Duties

The Sheriff's office lacks a proper segregation of duties because the bookkeeper receives all funds, prepares the daily checkout sheets, and also prepares the bank deposits. In addition, the bookkeeper records the receipts in the receipts ledger, prepares and signs the checks, posts to the disbursements ledgers, prepares bank reconciliations and quarterly financial statements. The current design in the internal control structure does not reduce the level of risk that errors and fraud may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties. We recommend that the Sheriff segregate these duties or implement compensating controls by the Sheriff periodically recounting and making the deposit, performing surprise cash count, reconciling monthly reports to source documents and the receipts and disbursements ledger.

Sheriff's Response: None.

2007-2 The Sheriff's Office Staff Should Batch Receipts Daily And Deposit Receipts Timely

During our audit, we noted that the Sheriff's office staff did not batch receipts and make deposits daily. It appears that in the month of April that receipts were only batched three times. We recommend that the office staff batch receipts and make deposits daily.

Sheriff's Response: We gone to work on this.